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BRAZILIAN LIGHT AND POWER COMPANY LIMITED

Annual Report 1967



BRAZILIAN LIGHT AND POWER COMPANY LIMITED

25 KING STREET WEST, TORONTO 1, CANADA

Comparative Highlights

	1967	1966	1965
	\$ millions	\$ millions	\$ millions
Plant, property and equipment, at cost	871.9	828.1	790.7
Long-term debt	72.8	72.0	74.9
Shareholders' equity	558.5	522.2	500.1
Operating revenues	267.9	238.4	183.5
Capital expenditures	59.6	43.0	26.9
Net income	51.6	36.4	19.5
Total dividends	16.5	14.5	7.3
Ordinary shares outstanding (average)	17,454,025	17,304,233	17,294,671
Book value per ordinary share—December 31	\$31.84	\$30.10	\$28.89
Net income per ordinary share	\$ 2.95	\$ 2.10	\$ 1.13
Dividends declared per ordinary share (U.S. \$ equivalent)	\$.95	\$.84	\$.42
Kilowatt-hours sold—millions	13,645	12,797	11,641

General view of the Henry Borden plant (capability 910,000 kw), which is the principal supplier of power to the São Paulo region. Santos can be seen in the background.

BRAZILIAN LIGHT AND POWER COMPANY LIMITED

Directors	HERMANN J. ABS	Director, Deutsche Bank AG	Frankfurt on Main
	J. H. A'COURT	VICE-PRESIDENT, FINANCE	Toronto
	PIERRE ANSIAUX	Member of the Bar of the Supreme Court of Belgium	Brussels
	THIERRY BARBEY	Managing Partner, Lombard, Odier & Cie.	Geneva
	HENRY BORDEN*	Chairman, British Newfoundland Corporation Limited	Toronto
	THE LORD BRIDGES	. . . . .	London
	E. G. BURTON*	Chairman and Chief Executive Officer, Simpsons, Limited	Toronto
	WALKER L. CISLER	Chairman, The Detroit Edison Company	Detroit
	JOHN F. GALLAGHER	Vice-President, International Operations, Sears, Roebuck and Co.	Chicago
	ANTONIO GALLOTTI	VICE-PRESIDENT	Rio de Janeiro
	J. GRANT GLASSCO*	PRESIDENT	Toronto
	G. BLAIR GORDON	Director, Dominion Textile Company Limited	Montreal
	J. PETER GRACE	President, W. R. Grace & Co.	New York
	LEWIS B. HARDER*	Chairman, International Mining Corporation	New York
	W. C. HARRIS*	Chairman, Harris & Partners Limited	Toronto
	R. L. HEARN*	. . . . .	Toronto
	PAUL E. MANHEIM*	Partner, Lehman Brothers	New York
	BEVERLEY MATTHEWS*	Partner, McCarthy & McCarthy	Toronto
	K. H. MCCRIMMON†	. . . . .	Rio de Janeiro
	NEIL J. MCKINNON*	Chairman, Canadian Imperial Bank of Commerce	Toronto
	JOHN G. PHILLIMORE	Managing Director, Baring Brothers & Co. Limited	London
	LAZARUS PHILLIPS	Partner, Phillips, Vineberg, Goodman, Phillips & Rothman	Montreal

Honorary Directors

E. C. FOX†	Toronto	W. A. G. KELLEY	Toronto
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* Member of the Executive Committee † Deceased

Officers

J. GRANT GLASSCO
President

E. G. BURTON
Vice-President

ANTONIO GALLOTTI
Vice-President

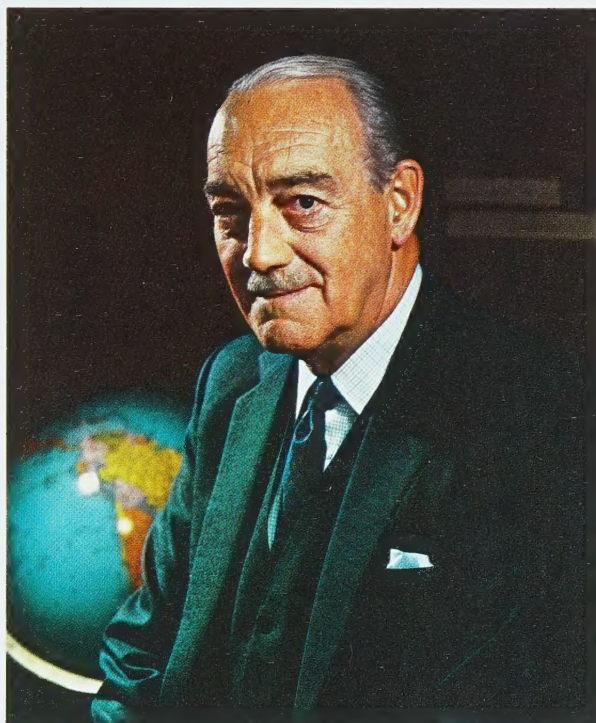
J. H. A'COURT
Vice-President, Finance

D. M. COOLICAN
Vice-President, Administration

L. A. ALLEN
Secretary

A. R. G. AMENT
Treasurer

R. R. SUTHERLAND
Comptroller



J. GRANT GLASSCO
President

DIRECTORS' REPORT

Net income for the year 1967 amounted to \$51,571,000, equivalent to \$2.95 per ordinary share. Comparable figures for 1966 were \$36,379,000 and \$2.10 per share. Operating revenues totalled \$267,875,000 representing an increase of 12% over 1966, and investment income at \$6,015,000 also increased by 15%.

The usual dividend of \$6.00 (Can.) was paid on the preference shares. On the ordinary shares three quarterly dividends of 25¢ (Can.) and a final quarterly dividend of 25¢ (U.S.) were declared. The total expressed in United States dollars was 95¢ per share compared with 84¢ in the preceding year. It is anticipated that in future dividends on the ordinary shares will be declared in U.S. currency.

DEVELOPMENTS IN BRAZIL Shortly following the assumption of office in March 1967 by President Costa e Silva, the nation was profoundly saddened by the tragic loss, in an airplane accident, of his illustrious predecessor, Marshal Castello Branco, who guided the nation through the initial phases of recovery following the 1964 revolution.

In 1967, under conditions of continuing political stability, the Brazilian economy achieved a satisfactory growth. New investment, planned or already under way, should lend renewed vigour to the industrial sector, in the development of which your Company has played such an important part over many years. A notable reduction in the rate of inflation resulted from the continued efforts of the Government, the cost of living having shown an increase of 25% compared with 44% in 1966. A brief review of the more important changes in the Brazilian economy is included in this report starting on page 8.

The Company's service area embraces the industrial heartland of Brazil. Until 1960 the rapidly expanding demand for energy was met from the Company's

own generating facilities which trebled in capacity in the preceding 15 years. Changes in government policy at the beginning of the present decade assigned to federal and state authorities the responsibility for creating new generating facilities. Thus it is now to a group of impressive publicly owned developments that the Company looks for the additional energy required to meet the expanding needs of its customers.

The dimensions of public investment in the electric energy sector are imposing. Government plans envisage an increase of 5 million kilowatts in installed capacity by 1971. Of this increase, 68% will be located in the south-central region where your Company operates. The main Government agencies responsible for this development are Eletrobras (federal), CESP (State of São Paulo) and CEMIG (State of Minas Gerais).

The cost of electric energy to consumers in Brazil has risen substantially during the past few years. This results from the Government's policy of assuring the efficient operation and necessary expansion of power systems, not only by granting reasonable rates to the utility companies, but also by adding to electricity bills special taxes and compulsory contributions, all designed to help the expansion of electric plant throughout the nation.

ELECTRIC OPERATIONS The year 1967 witnessed new records in sales of electric energy, both in volume and revenue, with operating revenues totalling \$249,531,000 compared with \$218,942,000 in 1966. Total volume of sales, 13,645 million kilowatt-hours, was approximately 7% higher than in 1966. These gains were registered in spite of a major accident to one of the larger generating stations. In January 1967, torrential rains in the mountains near Rio de Janeiro caused a series of landslides which resulted in the flooding of our Nilo Peçanha hydro-electric plant, which has an installed capacity of 330,000 kilowatts. Some months elapsed before this plant could be restored to service, during which time it was necessary to impose rationing of energy in the Rio de Janeiro system.

As a result of favourable precipitation, the Company's hydro-electric generating facilities, with the above-noted exception, operated at full capacity. With an abundance of hydro-generated energy available from government-owned plants, the Company's oil-fired steam plant once again operated at a low rate. Purchases of energy were equivalent to 36% of the Company's total energy sales, compared with 32% in 1966. As previously noted, the proportion of total sales supplied from purchased energy should continue to increase, as demand grows without further enlargement of Company generating resources.

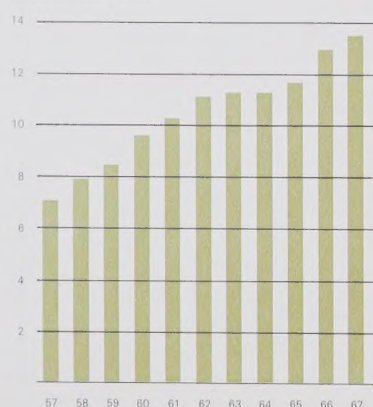
During the year a start was made on the conversion from 50 to 60 cycles of the frequency of the Rio de Janeiro system. At year-end the 60 cycle peak load reached 100,000 kilowatts, approximately 11% of the total Rio demand. The Company's plans to accommodate this change are well in hand and most of the major equipment required is on order.

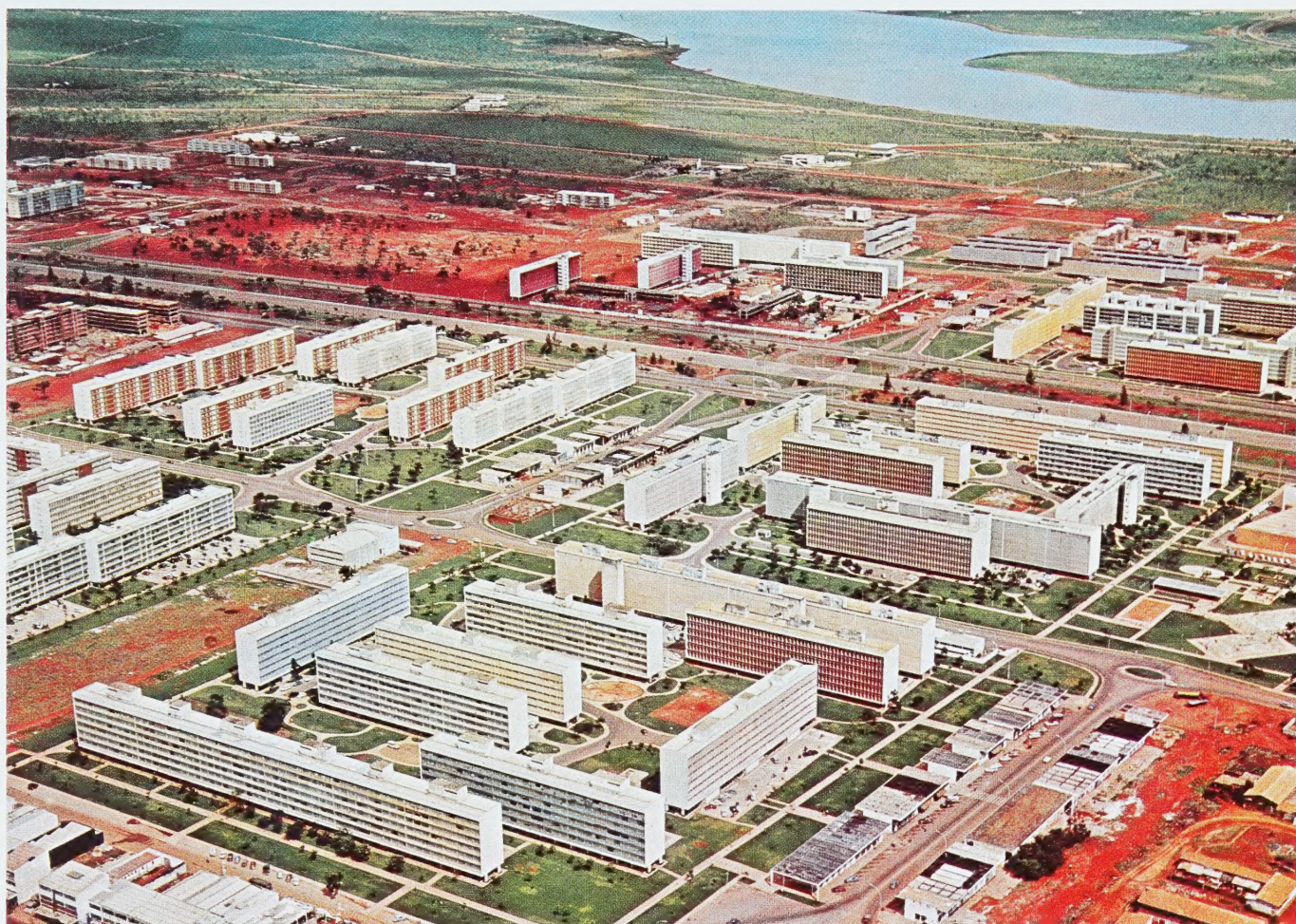
Rates for electric energy, set by federal authority, conformed to the "service at cost" principle and adjustments were made from time to time to reflect major cost increases. The remuneration component of the rate structure, designed to produce a return of 10% on the investment in service, is still based

ELECTRIC ENERGY SOLD

1957-1967

BILLIONS OF KILOWATT-HOURS
1 BILLION = 1,000 MILLION





Brasília, founded in 1960, with a present population of approximately 360,000.

on provisional figures. The verification by government commissions of this investment is well advanced but, until finalized, the Company's remuneration remains subject to adjustment. With this qualification, it can be reported that operating earnings for the first completed triennial rate period ending in 1967 substantially accorded with allowable earnings under the regulatory regime in force.

As explained more fully in the Financial Review, starting on page 11, the dollar earnings of 1967 are inflated by the fact that the internal inflation taken into account in adjusting electric rates has been proportionately greater than the increase in the free market rate for the dollar, which serves as a basis for the translation of cruzeiro income into dollars.

GAS OPERATIONS It is a matter of regret that little progress can be reported in the Company's efforts to restore the earning power of its gas properties.

In October, after several years of endeavour to negotiate a new concession contract with the City of São Paulo, the Company's gas properties were expropriated by the municipality. This action followed the serving of notice by the Company of its intention to discontinue service, in the face of its inability to establish a contractual base for efficient and profitable operation. Upon expropriation, the City paid into court a cruzeiro deposit equivalent to

\$2,406,938, which is well below the fair value of the property. The Company has applied to the court for a judicial determination of value and anticipates no ultimate loss as a result of the expropriation.

In Rio de Janeiro some progress has been made, an agreement having been reached for the financing by the State of Guanabara of certain plant additions that are urgently required. Negotiations are now being carried on to secure complete assurance of reasonable rates and funds for expansion, or as an alternative, our final withdrawal from this service. Operations are carried on at a loss and the increased requirements for working capital have necessitated some further investment by the parent company.

CAPITAL EXPENDITURES During the year a total of \$59,613,000 was expended for new plant, almost all of it devoted to the enlargement of the Company's systems of electric distribution and transmission. This compares with 1966 capital expenditures of \$43,019,000. The program for 1968 calls for expenditures totalling \$60,557,000.

The program of expansion and betterment of our distribution systems, inaugurated in 1965, has now proceeded to a point where new connections are being made promptly and the dependability of the service has been restored to a satisfactory standard. Funds provided by the \$40 million loan agreement signed in 1965 with the United States Agency for International Development have for the last two years assisted in carrying out this very important program.

INVESTMENTS Income from investments totalled \$6,015,000 during the year, compared with \$5,204,000 in 1966. At December 31, 1967, firm commitments for investment in Brazil stood at \$2,220,000, representing the Company's share of future expenditures on a nylon plant now under construction.

In the period 1968 to 1986 the Company is obligated to reinvest in Brazil a total of \$61,588,000 out of the monies payable under the terms of the sale of the telephone utility to the Brazilian Government some two years ago. Several major investment possibilities are at present under study.

Shareholders have already been advised of the purchase by the Company of a substantial block of shares in John Labatt Limited, a major Canadian brewing company. Total investment at December 31, 1967 was the equivalent of U.S. \$21,134,716 and the current yield thereon is 4.75%. Growth prospects for John Labatt Limited appear favourable and some capital appreciation is already reflected in the year-end market value of the Company's holdings, which stood at U.S. \$28,360,000.

EMPLOYEES At the end of 1967, with São Paulo gas operations taken over by the City, the Company and its subsidiaries had 25,430 employees, of whom fewer than 100 were resident outside Brazil. No work stoppages occurred and wages were increased by 26% in January 1967, and again by 19% in January 1968.

The Company is most fortunate in being served by a loyal and exceedingly competent group of employees. Their contribution to a successful performance is gratefully acknowledged.



Furnas hydro-electric plant (900,000 kw) on the Grande River, an important supplier of power to our systems.

DIRECTORS In December 1967 the death occurred of Mr. E. C. Fox. Joining the Board in 1944 and later serving as both Vice-President and Chairman, Mr. Fox played a prominent role in the Company's affairs bringing to bear on various problems strong and sagacious judgment. In recognition of his valuable service he was elected an Honorary Director in 1964.

In March 1968 the Company suffered a further grievous loss in the death of Major K. H. McCrimmon. Over a period of some 50 years, Major McCrimmon's service to the Company was outstanding and for many years he carried a heavy share of responsibility in senior offices in Brazil. On his retirement as a Director early in 1968, the Board, in recognition of his unique contribution to the Company's fortunes, elected him an Honorary Director.

To fill the vacancy on the Board, Dr. Augusto de Azevedo Antunes of Rio de Janeiro was appointed as a Director on March 5, 1968. Dr. Antunes, a highly regarded Brazilian industrialist, has been prominently identified with the development of Brazil's extractive industries.

On behalf of the Board of Directors,

President

April 2, 1968

ECONOMIC REVIEW

INTERNAL PRICE LEVEL The continued application of the Government's anti-inflationary policies, including a careful control of bank credit and restraints on wage increases, led to a significant reduction in the rate of inflation in Brazil during 1967. The cost of living increased by 25% during the year, a marked improvement over 1966 when living costs increased by 44%, and 1965 when they rose by 45%. The chart below shows the trend of inflation over the past eleven years, and it can be seen that the fiscal and monetary controls adopted in 1964 are having their effect. The federal cash deficit for 1967 was NCr\$1,225 million; this was financed to the extent of 35% by the sale of Treasury bonds.

The increase in the wholesale price index was reduced from 37% in 1966 to 22% in 1967, in part as a result of tax incentives granted to firms that kept their prices from rising unduly. The total money supply (currency in circulation plus bank deposits) increased in 1967 by 37% compared with increases of 20% in 1966 and 75% in 1965.

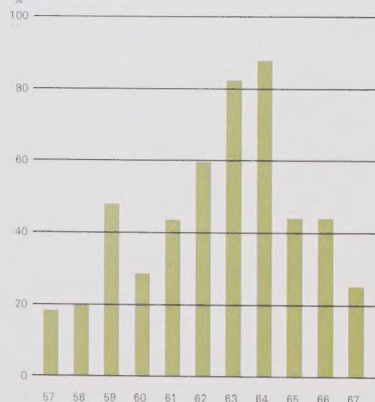
Brazil's minimum wage was increased by 25% on March 1, 1967, compared with raises of 27% in 1966 and 57% in 1965. A further increase of 23% took effect on March 26, 1968. A wage increase of 19% was granted to the Company's employees, dating from January 1, 1968; and there had been previous increases of 26% in 1967 and 31% in 1966.

ECONOMIC GROWTH AND DEVELOPMENT It has been the Government's policy to contain inflation without causing a reduction in the overall rate of economic growth. During 1967 the Gross National Product continued to grow by approximately 5%. Agricultural output increased by about 4% during the year, an improvement over 1966 when agricultural output had actually declined from the previous year due to unfavourable climatic conditions. Industrial output also grew by 4% during 1967, following an exceptional growth of 7% in 1966. Undoubtedly it was in the industrial sector of the economy that anti-inflationary measures were most keenly felt.

During 1967 Brazil's automotive industry produced 225,000 units, repeating the record production set in 1966. The production of cement increased by 6% over the previous year, and amounted in 1967 to 6.4 million tons. The national production of crude oil in 1967 was 54 million barrels, an increase of 25% over 1966. This is significant since crude oil and petroleum products are still among Brazil's chief imports, and any sizeable increase in the national production of crude oil means a corresponding increase in Brazil's economic independence. Brazil's consumption of crude oil and petroleum products, which has been growing at an annual rate of 8%, amounted in 1967 to 132 million barrels.

BRAZIL—
COST OF LIVING 1957-1967

ANNUAL PERCENTAGE INCREASE
RIO DE JANEIRO/SÃO PAULO AVERAGES
%



(Based on figures from Conjuntura Econômica)



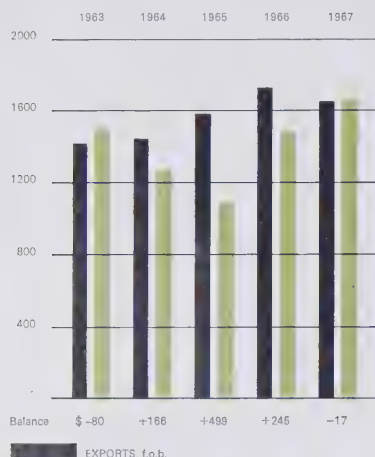
Carnival 1967

Brazil's shipbuilding industry is growing at a notable rate. From very small beginnings seven years ago, the industry is currently building for the national merchant marine 20 bulk carriers and tankers. The construction of these ships is expected to take four years.

Through SUDENE, the federal Government agency responsible for the development of Brazil's northeast, NCr\$1,058 million were invested in that area during 1967. Nearly half of this amount was made available by private enterprise in response to the federal Government's policy of permitting direct private investment in the northeast as an alternative to paying full income tax.

BRAZIL— FOREIGN TRADE 1963-1967

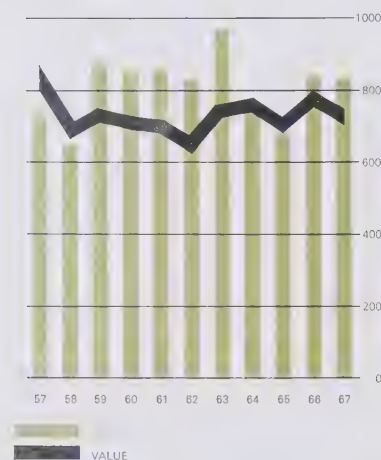
VALUE EXPRESSED IN MILLIONS OF DOLLARS



(Based on figures supplied by Brazilian Ministry of Finance)

BRAZIL— COFFEE EXPORTS 1957-1967

VALUE IN
MILLIONS OF DOLLARS



(Based on figures supplied by Brazilian Ministry of Finance)

Up to 50% of income tax payable can be invested in this way. Investments were made in industry, and in farming and cattle raising projects, all contributing to the expansion of a previously underdeveloped area.

BALANCE OF PAYMENTS AND TRADE The value of Brazil's foreign trade in 1967, expressed in U.S. dollars, was approximately 3% greater than in 1966. The chart opposite shows the position for the past five years, and it can be seen that following favourable trade balances of \$499 million in 1965 and \$245 million in 1966 there was a deficit of \$17 million in 1967. A similar trend occurred in the balance of payments which in 1967 showed a deficit of approximately \$235 million compared with a surplus of \$135 million in 1966. These developments were largely responsible for a reduction in Brazil's foreign exchange reserves which declined from \$675 million at the beginning of the year to \$358 million at the end of 1967.

Although the volume of Brazil's exports in 1967 was greater than in the preceding year, prices were generally lower causing a drop in the value of exports from \$1,741 million in 1966 to \$1,652 million in 1967. The price of coffee, Brazil's most important export, declined during the year and exports of this commodity realized \$59 million less than in 1966. (See table of principal exports below.) It is encouraging to note that the value of 1967 exports of manufactured goods rose by 37% to a total of \$143 million. They are second in importance only to coffee, and reduce Brazil's dependence upon coffee as the chief earner of foreign exchange.

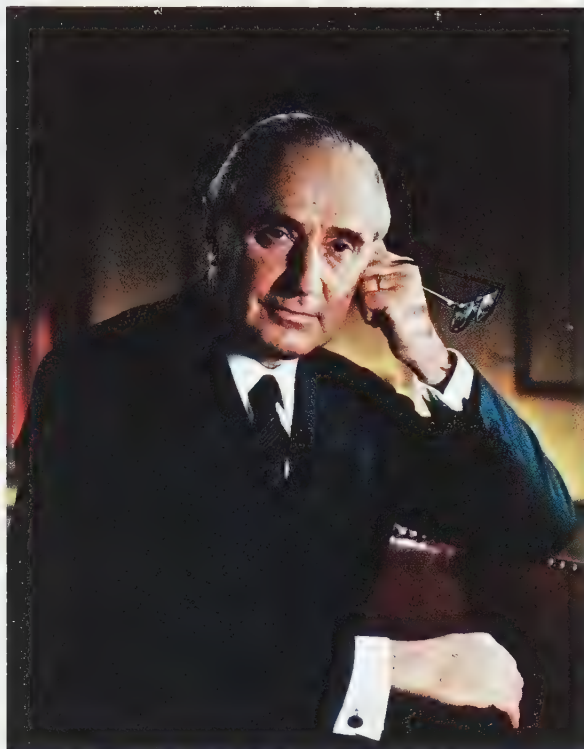
An easing of import controls during 1967 was an important factor in bringing about a \$174 million increase in imports compared with the previous year. Imports of machinery and equipment have been rising steadily, reflecting the increased level of investment in industry. The cost of imports of crude oil and petroleum products was \$232 million in 1967, only a small increase over the figure for 1966.

Brazil—Principal Exports

VALUE EXPRESSED IN MILLIONS OF DOLLARS

	1967	1966	1965	1964	1963
Coffee	705	764	707	760	748
Manufactured Goods	143	104	110	70	37
Iron Ore	100	100	103	81	70
Cotton	91	111	96	108	114
Sugar	79	80	57	33	72
Cocoa Beans	59	51	28	35	35
Pinewood	48	56	52	46	35
Manganese Ore	14	27	29	21	25
TOTAL ALL EXPORTS	1,652	1,741	1,595	1,430	1,407

(Based on figures supplied by Brazilian Ministry of Finance)



ANTONIO GALLOTTI
Chief Executive in Brazil

FINANCIAL REVIEW

The consolidated accounts of the Company and its subsidiaries, together with the notes which form an integral part thereof, are set out on pages 19 to 26 of this Report. All the Financial Statements are presented in United States dollars as in the past and, unless otherwise indicated, references to dollars herein are to United States dollars. References to cruzeiros in this Report are to new cruzeiros. The new cruzeiro (NCr\$), equivalent to 1,000 old cruzeiros, became the monetary unit of Brazil on February 13, 1967.

Translation of Financial Statements into Dollars. Note 1 to the Financial Statements (page 24) describes the method which has been used since the establishment of the free exchange market in Brazil in 1953 for the purpose of translating into dollars revenues and expenses and assets and liabilities originating in other currencies. All the Company's operating income and much of its other income and income deductions arise in cruzeiros. Under the traditional formula all cruzeiro revenues and all cruzeiro expenses (other than depreciation) are translated either at the composite earnings rate described at the foot of page 24 or at the average free market rate for the year. Since 1961 the spread between these two exchange rates has been negligible, as is shown by the following:

	Cruzeiros per dollar	
	Composite earnings rate	Average free market rate
1961	NCr\$0.188	NCr\$0.277
1962	0.367	0.390
1963	0.578	0.578
1964	1.264	1.293
1965	1.902	1.904
1966	2.215	2.218
1967	2.673	2.686



The cruzeiro was devalued by approximately 19% as of January 4, 1968, and from that date dollars have been bought and sold by authorized dealers at NCr\$3.20 and NCr\$3.22 respectively. In view of this change cruzeiro working capital and certain other assets and liabilities normally translated into dollars at the year-end free market exchange rate were translated at NCr\$3.22 to the dollar.

MERGER OF ELECTRIC SUBSIDIARIES During 1967 the Company's seven electric subsidiaries in Brazil were merged through the absorption by the former São Paulo Light S.A. of the assets and liabilities of the other six. The name of São Paulo Light was then changed to "Light—Serviços de Eletricidade S.A.", hereinafter referred to as Light. This operation was carried out on the basis of the book values of the various assets and liabilities involved, and in no way affected either the consolidated accounts of the Company or the cruzeiro accounts of Light. It became effective on August 25, 1967, and should result in improved service to customers as well as improved reporting to shareholders. The merger required certain amendments to be made in the indentures securing the debentures of the former electric subsidiaries held by the Company, and advantage was taken of this opportunity to provide for the amortization of a portion of such debentures through a sinking fund.

REMITTANCES During 1967 the former electric subsidiaries of Light remitted to the Company or otherwise liquidated all unpaid interest of prior years on inter-company debt held in the form of debentures. Interest pertaining to the year 1967 was also remitted or otherwise settled as it fell due. The Company also received its share of dividends declared in 1967 by its subsidiaries.

Pursuant to the terms of the Obligors Agreement which came into force on June 30, 1965, Light (or its predecessors) continued during 1967 to service the Company's indebtedness to the International Bank for Reconstruction and Development. As of the date of this Report the \$120,390,000 originally borrowed from the Bank had been reduced to \$51,541,000. So long as Light meets its commitments under the Obligors Agreement, the Company is relieved of the obligation to service its debt to the Bank.

Reference has been made in recent Annual Reports to the requirement of Brazilian law whereby foreign investments in that country must be registered by the Central Bank. It is no longer possible for remittances relating to such investments to be made on a provisional basis, prior to registration, against written undertakings to make such subsequent adjustments as may be called for once registration is completed. Completion of the registration and official publication thereof is therefore now a matter of some urgency. The Central Bank has finished its examination of the Company's requests for registration, and official publication of the registered investments is anticipated very soon. Most of that portion of the Company's investment which is held in the form of debt of its subsidiaries is expected to be registered. Inter-company debt which is not to be registered has been capitalized in 1968. The initial registration of the portion of the Company's investment which is held as equity will, for various reasons, be partial only, and further negotiations will be necessary to improve this result. Until these are brought to a successful conclusion, the Company's share of dividends declared by Light will be only partially convertible into dollars.

below summarizes the statement of consolidated income for the years 1965, 1966 and 1967. This reflects the operation of the electric service for three full years under the "service at cost" system. The 1965 figures include, as part of "Income Deductions", the net loss suffered by the telephone utility in that year (\$943,752). In 1966 and 1967 "Other Income" includes interest on the outstanding balances owing on sale of the telephone utility at the end of 1965. The figures shown in the table also include, in 1965 and 1966, operating revenues and operating revenue deductions pertaining to the gas service in the cities of Rio de Janeiro, São Paulo and Santos. The gas service in Santos was discontinued in January 1967, and the estimated loss on abandonment thereof is included in 1966 "Income Deductions". The properties used in the gas service in São Paulo were expropriated by the municipality on October 27, 1967, and the figures in the table do not therefore include the operating results of that service after such date.

In the long run changes in the external value of the cruzeiro tend to reflect the variations in the internal value of the currency. Over shorter periods however adjustments in the external rate, which are effected by devaluation, tend to lag behind the internal inflation and this fact, taken in conjunction with the procedures followed in translating cruzeiros into dollars, unavoidably distorts the comparability between successive periods of the dollar figures appearing in the statement of consolidated income. As explained on page 11 above most of the components of net income generated in cruzeiros are translated into dollars at a composite rate which approximates the average free market (i.e. the average external) rate of exchange for the year. Between 1966 and 1967 this composite rate was reduced by just under 21 % (from NCr\$2.215 to NCr\$2.673). The main source of cruzeiro net income is the remuneration earned on the rate base of the Company's electric subsidiary. Such remuneration tends to fluctuate with the internal price level, as a result of annual adjustments in electric rates based on the inclusion in the cruzeiro rate base of monetary corrections (or write-ups) of electric plant in service calculated to reflect the depreciation in the internal value of the cruzeiro. Thus the 1966 rate base (and hence the allowable cruzeiro remuneration thereon) was increased through monetary correction in 1967 by almost 31 %. The effect of

Comparative Statement of Consolidated Income

	YEAR ENDED DECEMBER 31		
	1967 (000)	1966 (000)	1965 (000)
Operating revenues	\$267,875	\$238,383	\$183,500
Operating revenue deductions:			
Operating expenses including provision for income taxes	171,505	150,097	114,386
Provision for depreciation	20,377	32,414	27,121
Provision for reversion	18,128	15,978	13,896
	<u>210,010</u>	<u>198,489</u>	<u>155,403</u>
Operating income	57,865	39,894	28,097
Other income	10,781	10,788	3,108
Net income before income deductions	68,646	50,682	31,205
Income deductions	17,075	14,303	11,725
Net income for year	<u>\$ 51,571</u>	<u>\$ 36,379</u>	<u>\$ 19,480</u>

the divergence between the 21 % variation in the translation rate and the 31 % variation in the 1966 rate base arising from monetary correction was to increase the dollar value attributed in 1967 to allowable remuneration on the 1966 rate base by about 8 % over the corresponding dollar value in 1966.

It should be noted that further unavoidable distortion of comparisons between successive years arises whenever deficiencies in remuneration allowed on the rate base are recovered in whole or in part in subsequent years. A portion of the (estimated) deficiencies suffered in 1965 was recovered in 1966 operating revenues, as described in the 1966 Annual Report. The balance of (estimated) deficiencies to the end of 1966 was then recovered in 1967 operating revenues. This factor accounts for part of the variations in Operating Income over the 1965-1967 period.

PRINCIPAL COMPONENTS OF CONSOLIDATED NET INCOME The Statement of Consolidated Income appearing on page 19 of this Report shows that net income increased from \$36,378,856 (\$2.10 per share) in 1966 to \$51,570,727 (\$2.95 per share) in 1967. The increase of \$15,191,871 in net income arises from the following:

Operating income —increase	. . . . .	\$17,970,711
Other income —decrease	. . . . .	(6,735)
Income deductions—increase	. . . . .	(2,772,105)
		<u>\$15,191,871</u>

OPERATING INCOME The principal variable affecting operating income is electric rates. Rates have, since January 1, 1965, been established in Brazil under the system of “service at cost” which, as explained in more detail in recent Annual Reports, is designed to provide operating revenues adequate to cover all the recognized elements of cost. Cost includes all operating expenses required to carry on the service, certain taxes (as paid), depreciation as determined by the regulatory authority, reversion (a theoretical provision for amortization of the investment) and remuneration of the recognized cruzeiro investment or rate base. The rate base includes net plant in service and working capital. Recorded monetary corrections (or write-ups) of net plant to compensate for currency depreciation are included in the rate base on which remuneration is allowed. The applicable portions of such corrections are also included in the components of the rate base upon which allowable depreciation and reversion are calculated.

Rates were last increased in May 1967, primarily to reflect monetary corrections recorded in the books prior to that date which had not previously been taken into account. At the same time the different rate schedules previously prevailing in Rio and São Paulo were unified, in anticipation of the merger which occurred shortly thereafter. The May 1967 rate increases, following the earlier adjustments in March 1965 and September 1966, were sufficient to produce somewhat more than the estimated allowable remuneration for the three-year period ended December 31, 1967. As indicated in Note 3 to the Financial Statements, the excess has been excluded from operating revenues and is carried on the balance sheet as part of accounts payable and accrued charges. This excess will probably have to be deposited, in whole or in part, in one of the official banks, where it will be held to cover future shortages in remuneration.



Santos

The remuneration on the electric rate base, while the main source of "Operating Income", cannot be related in any direct way either to any figure or combination of figures appearing in the dollar consolidated balance sheet or to consolidated net income in dollars. Approximately 25% of the total investment reflected by the consolidated balance sheet, as well as substantial portions of the income statement, are in no way related to the electric service. The electric rate base is a cruzeiro (not a dollar) amount, calculated in accordance with the regulations from a number of cruzeiro balances not all of which are book figures. Many items of expense applicable to the electric service are not recoverable in rates and must be paid out of the remuneration. What remains of the latter must then be translated into dollars by the application to its various components of the different exchange rates described in Note 1 to the Financial Statements.

Shareholders have been advised on several previous occasions that the value of the electric rate base used for rate purposes since January 1, 1965 is provisional. Government commissions have been engaged for several years in the task of determining the amount of the rate base or remunerable investment. It is

possible that their work may be completed by the end of the current year. Pending determination and recognition by the regulatory authorities of the definitive cruzeiro value of the remunerable investment, the estimated annual remuneration allowable thereon under the “service at cost” system remains subject to later adjustment.

Under the “service at cost” system annual provisions for depreciation and reversion are recorded as directed by the regulatory authorities and cash corresponding thereto is recovered in the rates. In 1967 the authorities reduced the depreciation rate. Depreciation written and recovered in that year consequently amounted to 3 % of depreciable plant included in the 1967 rate base (as compared with 5 % of depreciable plant included in the 1966 rate base, in the previous year). This accounts for most of the \$12,036,925 decrease in depreciation reflected in the Statement of Consolidated Income. Reversion was recorded in 1967 on the same basis as in 1966 and 1965, and the cash proceeds thereof continued to be used to assist in financing the expansion of the distribution system.

OTHER INCOME The Statement of Consolidated Income reflects \$5,148,724 of 1967 interest under the telephone sale agreement, representing interest accruing during the year on the unpaid portion of the price at which the telephone utility was sold to the federal Government of Brazil at the end of 1965. This sum was received quarterly as it fell due, along with the principal instalments called for by the sale agreement.

Investment income amounted to \$6,014,809 in 1967, representing an increase of \$811,257 over the total of \$5,203,552 earned in 1966. The increase is substantially equivalent to the dividends earned on the shares of John Labatt Limited purchased by the Company in April 1967.

INCOME DEDUCTIONS Three items shown as Income Deductions call for brief explanation.

The \$1,869,059 credit for interest charged to construction in 1967 represents interest capitalized on electric construction work in progress, pending its completion and transfer to utility plant in service. As construction projects are completed and enter into service their cost, including capitalized interest, qualifies as part of the remunerable investment.

Reversion interest of \$1,722,750 (\$921,127 in 1966) represents interest at 6 % per annum on the accumulated total of reversion monies recovered in rates and expended on plant to increase the rate base. The offsetting credit is to the accumulated Provision for Reversion, which represents in effect a permanent 6 % loan for plant expansion.

The foreign exchange adjustments of \$5,218,553 (\$2,965,026 in 1966) arise primarily from the year-end write-downs of the dollar value of cruzeiro working capital. The net assets included under this heading were translated into dollars at December 31, 1965, 1966 and 1967 at exchange rates of NCr\$2.220, NCr\$2.715 and NCr\$3.220 respectively.

CONSOLIDATED BALANCE SHEET The Consolidated Balance Sheet on pages 20 and 21 indicates that the book value of total shareholders' equity increased from \$522,229,593 at December 31, 1966 to \$558,475,829 at December 31, 1967. By services or sectors the 1967 total represents the following investments:

Electric utilities	\$415,604,290
Gas utilities	13,202,712
Outstanding balance of telephone utility sale price	83,600,288
Non utility investment.	46,068,539
	<u>\$558,475,829</u>

Certain of the assets and liabilities constituting the above investment are commented upon briefly below.

FIXED ASSETS Total Fixed Assets shown by the Consolidated Balance Sheet increased from \$828,131,220 at December 31, 1966 to \$871,876,844 at December 31, 1967. The increase of \$43,745,624 represents capital expenditures of \$59,612,912 less the gross book value of the gas plant expropriated in São Paulo and normal retirements and other adjustments. The capital expenditures were incurred in the various sectors as follows:

Electric generation and transmission	\$ 4,541,008
Electric distribution	53,860,884
Gas production and distribution	1,211,020
	<u>\$59,612,912</u>

In the three preceding years capital expenditures have been:

1966	\$43,019,000
1965	26,947,000
1964	14,746,000

Most of the capital expenditures of the last three years form part of the program for expansion and improvement of the Company's transmission and distribution systems required to relieve overloading and meet the load growth in Rio de Janeiro and São Paulo and the surrounding areas served by Light. The cost of this program over a three-year period was originally estimated at \$122 million, of which \$40 million was made available under loans negotiated in 1965 with the United States Agency for International Development. Extended to cover the four-year period to the end of 1968 and adjusted to reflect other modifications, the cost of the revised program is now estimated at \$186 million, of which \$146 million will be financed with funds generated internally. Approximately \$98,600,000 of this latter sum had been expended (\$84,220,000) or committed (\$14,380,000) to December 31, 1967.

The load growth is a sustained factor and Light will be faced with a continuing need to expand its facilities after completion of the current program at the end of 1968. It is anticipated that capital expenditures over the next four-year period from 1969 to 1972 will average \$55 million per year.

RECEIVABLE ON SALE OF TELEPHONE UTILITY The \$78,845,608 appearing in the Consolidated Balance Sheet as receivable on sale of the telephone utility at December 31, 1967 may be reconciled with the sale price of \$96,315,787 as follows:

Amount paid (instalments maturing up to and including January 1, 1968)	\$12,715,499
Notes discounted (instalments maturing April 1 and July 1, 1968)	3,417,239
Current assets (instalments maturing October 1, 1968 and January 1, 1969)	1,337,441
Amount receivable in quarterly instalments from April 1, 1969 to January 1, 1986	78,845,608
Total selling price	<u>\$96,315,787</u>

Approximately \$65 million of the total selling price must be reinvested in Brazil. This sum includes \$3,149,000 of the instalments received in 1966 and 1967, which has been invested or committed for investment in two projects in Brazil.

EXPROPRIATED ASSETS OF SÃO PAULO GAS SERVICE Upon expropriation by the municipality, on October 27, 1967, of the assets employed in the manufacture and distribution of gas in São Paulo, the equivalent of \$2,406,938 was deposited by the municipal authorities to the order of the Company's gas subsidiary in that city, pending determination by the court of the indemnity payable for the assets in question. The \$5,970,060 shown in the Consolidated Balance Sheet represents the book value of the expropriated assets less the deposit. No loss is anticipated as a result of the expropriation, but the final result will only be known when the value of the assets is fixed by the competent judicial authorities.

OTHER INVESTMENTS The \$26,548,973 increase in other investments (from \$17,001,724 at December 31, 1966 to \$43,550,697 at December 31, 1967) represents changes in holdings of the following securities:

Common shares of John Labatt Limited	\$21,134,716
Telephone proceeds reinvested in equities in Brazil	2,344,767
Fixed income obligations and other items	3,069,490
	<u>\$26,548,973</u>

Telephone sale proceeds invested or committed for investment to the end of 1967 totalled \$5,015,000, relating to projects involving the production of nylon yarn (in partnership with Celanese Corporation) and the manufacture of canned and bottled vegetables, fruits and juices with related farming activities (in partnership with a prominent Brazilian industrial concern).

WORKING CAPITAL The Statement of Source and Application of Funds appearing on page 22 indicates the components of the \$3,929,660 increase in working capital which occurred during 1967. The more important items are commented upon separately elsewhere in this Report.

LONG-TERM DEBT Long-term debt increased in 1967 by \$835,443 from \$71,951,496 at December 31, 1966 to \$72,786,939 at December 31, 1967. Details of the \$72,786,939 outstanding at the end of 1967 appear on page 23. The increase of \$835,443 represents 1967 drawdowns under the \$40 million of United States Agency for International Development loans, which amounted to \$12,565,353 less repayments or transfers to current liabilities of 11,729,910

	<u>\$ 835,443</u>
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DEFERRED CREDITS The increase in Deferred Credits indicated by the Consolidated Balance Sheet is accounted for principally by the interest effectively received in advance with the two instalments of the telephone sale price which, as indicated above, were discounted prior to the year-end.

BRAZILIAN LIGHT AND POWER COMPANY LIMITED
AND SUBSIDIARY COMPANIES

Statement of Consolidated Income

FOR THE YEARS ENDED DECEMBER 31
EXPRESSED IN UNITED STATES CURRENCY

	1967	1966
OPERATING REVENUES:		
Electric	\$249,530,610	\$218,941,507
Gas	18,344,232	19,441,811
	<u>267,874,842</u>	<u>238,383,318</u>
OPERATING REVENUE DEDUCTIONS:		
Operating expenses	148,483,282	130,953,664
Provision for income taxes (including withholding taxes) (Note 4)	23,021,078	19,142,651
Provision for depreciation (Note 3)	20,377,394	32,414,319
Provision for reversion (Note 3)	18,128,137	15,978,444
	<u>210,009,891</u>	<u>198,489,078</u>
OPERATING INCOME	<u>57,864,951</u>	<u>39,894,240</u>
OTHER INCOME:		
Interest under telephone sale agreement	5,148,724	5,551,751
Investment income	6,014,809	5,203,552
Miscellaneous (net)	(382,735)	32,230
	<u>10,780,798</u>	<u>10,787,533</u>
NET INCOME BEFORE INCOME DEDUCTIONS	<u>68,645,749</u>	<u>50,681,773</u>
INCOME DEDUCTIONS:		
Interest on long-term debt	4,102,452	3,985,124
Interest charged to construction—credit	(1,869,059)	(986,036)
Reversion interest (Note 3)	1,722,750	921,127
Foreign exchange adjustments (Notes 1 and 2)	5,218,553	2,965,026
Equity of minority shareholders	7,900,326	4,532,888
Provision for loss on abandonment of Santos gas service	—	2,884,788
	<u>17,075,022</u>	<u>14,302,917</u>
NET INCOME FOR YEAR	<u><u>\$ 51,570,727</u></u>	<u><u>\$ 36,378,856</u></u>
AVERAGE ORDINARY SHARES OUTSTANDING	17,454,025	17,304,233
NET INCOME PER ORDINARY SHARE	<u><u>\$2.95</u></u>	<u><u>\$2.10</u></u>

(See accompanying notes)

Consolidated Balance Sheet

EXPRESSED IN UNITED STATES CURRENCY

Assets	DECEMBER 31	
	1967	1966
FIXED ASSETS:		
Utility plant in service	\$ 836,210,500	\$ 809,871,080
Construction work in progress	32,002,741	15,775,740
Other physical property	3,663,602	2,484,399
Total property, plant and equipment at cost	871,876,843	828,131,219
Rights, franchises, contracts and goodwill	1	1
	<u>871,876,844</u>	<u>828,131,220</u>
INVESTMENTS AND OTHER ASSETS:		
Receivable on sale of telephone utility (Note 5)	78,845,608	83,600,288
Other investments at cost less amounts written off (Note 6)	43,550,697	17,001,724
Securities and cash on deposit with trustee under trust indentures	6,959,114	7,249,588
Sundry assets, including long-term receivables	14,956,688	8,738,409
Unrealized balance of expropriated assets of São Paulo gas service, at book value (Note 7)	5,970,060	—
Prepaid expenses and other deferred items	2,119,992	1,591,618
	<u>152,402,159</u>	<u>118,181,627</u>
CURRENT ASSETS: (Note 4)		
Cash	13,006,361	17,442,522
Short-term investments and deposit receipts	57,872,481	45,347,519
Government of Brazil obligations	33,058,129	22,848,921
Accounts receivable	27,602,603	24,612,783
Materials and supplies at average cost	23,913,524	21,560,424
	<u>155,453,098</u>	<u>131,812,169</u>
On behalf of the Board:		
J. GRANT GLASSCO } E. G. BURTON }	Directors	
(See accompanying notes)	<u>\$1,179,732,101</u>	<u>\$1,078,125,016</u>

Consolidated Balance Sheet

EXPRESSED IN UNITED STATES CURRENCY

Liabilities	DECEMBER 31	
	1967	1966
SHAREHOLDERS' EQUITY:		
Capital (Note 8)		
Authorized—		
3,934 6% cumulative convertible preference shares of a par value of \$100 each		
20,000,000 ordinary shares of no par value		
Issued and Outstanding—		
3,934 preference shares	\$ 393,400	\$ 393,400
17,528,871 ordinary shares		
(1966—17,336,271 shares)	186,014,551	184,787,463
	186,407,951	185,180,863
Retained earnings	372,067,878	337,048,730
	558,475,829	522,229,593
MINORITY INTEREST IN SUBSIDIARY COMPANIES	42,425,772	34,405,211
CONTRIBUTIONS IN AID OF CONSTRUCTION	26,486,694	23,552,790
LONG-TERM DEBT (per attached statement)	72,786,939	71,951,496
ACCUMULATED PROVISIONS:		
Depreciation (Note 3)	298,288,821	287,791,417
Amortization (Note 9)	34,389,005	34,389,005
Reversion (Note 3)	50,687,997	30,830,083
	383,365,823	353,010,505
DEFERRED CREDITS	12,936,164	9,431,810
CURRENT LIABILITIES:		
Accounts payable and accrued charges	47,166,913	26,950,465
Income and other taxes payable	18,484,686	19,702,195
Long-term debt payable within one year	10,889,753	10,863,211
Interest and dividends due and accrued	6,713,528	6,027,740
	83,254,880	63,543,611
(See accompanying notes)	\$1,179,732,101	\$1,078,125,016

Statement of Source and Application of Funds

FOR THE YEARS ENDED DECEMBER 31

EXPRESSED IN UNITED STATES CURRENCY

FUNDS PROVIDED	1967	1966
Funds provided from operations:		
Net income for year	\$ 51,570,727	\$ 36,378,856
Provisions deducted in arriving at net income:		
Depreciation	20,377,394	32,414,319
Reversion	18,128,137	15,978,444
Reversion interest	1,722,750	921,127
Equity of minority shareholders	7,900,326	4,532,888
	<u>99,699,334</u>	<u>90,225,634</u>
Current portion of sale price of telephone utility	4,754,680	6,542,927
Customers' contributions in aid of construction	2,933,904	2,108,697
Long-term borrowings	12,565,353	10,950,542
Increase in deferred credits	3,504,354	1,126,392
Share capital issued	1,227,088	265,741
Deposit on expropriated gas properties, São Paulo	2,406,938	—
	<u>127,091,651</u>	<u>111,219,933</u>
FUNDS USED		
Dividends—preference shares	21,879	21,887
—ordinary shares	16,529,700	14,458,297
Subsidiaries' dividends paid to minority shareholders	2,348,019	1,044,919
Capital expenditures	59,612,912	43,019,438
Reduction in long-term debt	11,729,910	13,941,876
Increase in other investments	26,548,973	10,801,697
Increase in sundry assets	6,218,279	981,058
Miscellaneous changes in various asset and liability accounts	152,319	(1,511,651)
Increase in working capital	3,929,660	28,462,412
	<u>\$127,091,651</u>	<u>\$111,219,933</u>

Statement of Consolidated Retained Earnings

FOR THE YEARS ENDED DECEMBER 31

EXPRESSED IN UNITED STATES CURRENCY

	1967	1966
BALANCE AT BEGINNING OF YEAR	\$337,048,730	\$315,150,058
NET INCOME FOR YEAR	51,570,727	36,378,856
	<u>388,619,457</u>	<u>351,528,914</u>
DEDUCT:		
Dividends: preference shares—(Can. \$6.00 per share)	21,879	21,887
ordinary shares —(Can. \$0.75 plus U.S. \$0.25 per share)	16,529,700	—
(Can. \$0.90 per share)	—	14,458,297
	<u>16,551,579</u>	<u>14,480,184</u>
BALANCE AT END OF YEAR	<u>\$372,067,878</u>	<u>\$337,048,730</u>

(See accompanying notes)

Statement of Long-Term Debt

AS AT DECEMBER 31, 1967

EXPRESSED IN UNITED STATES CURRENCY

Amounts due to International Bank for Reconstruction and Development*—

4¼%, 4½%, 4⅞% and 6% loans, due semi-annually 1968 to 1978 inclusive, payable in U.S. funds	\$36,770,802
4¼%, 4½% and 6% loans, due semi-annually 1968 to 1978 inclusive, payable in Canadian funds—Can. \$13,975,352	13,497,940
4½% and 6% loans, due semi-annually 1968 to 1978 inclusive, payable in various funds—£254,558; Swiss Francs 403,407; German Marks 226,128; French Francs 5,578,000 . . .	2,092,258
	<u>52,361,000</u>

*The amounts due to International Bank for Reconstruction and Development are evidenced by obligations of Light—Serviços de Eletricidade S.A. under an Obligors Agreement dated June 9, 1965; by various Loan Agreements; and by the following Collateral Trust Bonds of Brazilian Light and Power Company Limited—

	<u>U.S. Equivalent</u>
Series A—payable in U.S. funds	\$36,770,802
Series B—payable in Canadian funds	13,497,940
Series C—payable in various currencies	2,092,258

Brazilian Light and Power Company Limited:

Collateral Trust Bonds—

4¾% bonds Series D, due 1970, payable in Canadian funds—Can. \$1,896,500	1,814,832
4½% bonds Series E, due 1971, payable in Canadian funds—Can. \$2,086,000	1,977,251
5% bonds Series F, due 1981, payable in £ sterling — £ 174,955	709,540

Light—Serviços de Eletricidade S.A.:

United States of America Alliance for Progress 5½% loan (secured by floating charge), payable in U.S. funds in equal semi-annual instalments from July 28, 1969 to July 28, 1984. While the Special Payments Procedure is in effect principal and interest are to be paid in cruzeiros at the applicable rate prevailing on the due date. 23,515,895

5% perpetual consolidated debenture stock of former São Paulo Light S.A.—Serviços de Eletricidade (secured by floating charge), £677,707, called in February 1968 for redemption on September 2, 1968 at 105% of the principal amount thereof 3,298,174

83,676,692

Less amount payable within one year included under current liabilities (including 5% perpetual consolidated debenture stock) 10,889,753

\$72,786,939

Maturities and sinking fund requirements during the next five years are as follows:

1968—\$10,889,753; 1969—\$8,600,851; 1970—\$10,204,805; 1971—\$10,846,816; 1972—\$9,486,819.

(See accompanying notes)

BRAZILIAN LIGHT AND POWER COMPANY LIMITED

AND SUBSIDIARY COMPANIES

Notes to Financial Statements

1. TRANSLATION OF FOREIGN CURRENCIES

The Company's financial statements are expressed in terms of U.S. currency. Assets and liabilities and revenues and expenses in currencies other than U.S. dollars are translated into U.S. funds on the following bases:

Fixed assets and related accumulated provisions for depreciation, amortization and reversion	}	At the rates of exchange prevailing when transactions giving rise to such items occurred; transactions in cruzeiros since December 31, 1952 have been translated at free market rates.
Other investments		
The major portion of materials and supplies		
Capital stock		
Contributions in aid of construction		
Long-term debt (including portion payable within one year)		
The major portion of deferred credits		
Government of Brazil cruzeiro obligations subject to monetary correction		

All other assets and liabilities (consisting principally of current assets and current liabilities)	}	Brazilian currency items (Note 2):
		December 31, 1967—at 3.22 cruzeiros to the dollar
		December 31, 1966—at 2.715 cruzeiros to the dollar
		Other items:
		At the rates of exchange prevailing at December 31.

Cruzeiro revenues (other than interest charged to construction) and cruzeiro expenses (other than depreciation, reversion and reversion interest)	At the composite earnings rate determined in the manner referred to below.
---	--

Provision for depreciation for the year	At the same rate as that used for the translation of the related assets.
---	--

Provision for reversion for the year, interest charged to construction and reversion interest	At average free market rates.
---	-------------------------------

Revenues and expenses other than those in cruzeiros	At average monthly rates of exchange for the currencies involved.
---	---

Dividends (including dividends to minority holders of shares of electric subsidiaries)	At the rates of exchange prevailing when the dividends were appropriated.
--	---

The composite earnings rate referred to above is the rate resulting from the translation into dollars of cruzeiro net income as follows:

	Cruzeiros to the dollar	
	<u>1967</u>	<u>1966</u>
(a) In respect of dollars purchased for remittance during the year, at the actual rates of exchange at which such dollars were purchased, the average of such rates being	2.646	2.209
(b) In respect of the balance of cruzeiro net income, at the average free market rate of exchange for the year, viz.	2.686	2.218
The resulting composite earnings rate was	2.673	2.215

2. TRANSLATION OF BRAZILIAN CURRENCY ITEMS AT DECEMBER 31, 1967 AND 1966

On February 13, 1967 the cruzeiro was replaced as the monetary unit of Brazil by the new cruzeiro (equivalent to 1,000 old cruzeiros). References to cruzeiros in these Notes are to new cruzeiros. On the same date the free market exchange rate (which had since November 16, 1965 been maintained at 2.220 cruzeiros to the dollar) was reduced to 2.715 cruzeiros to the dollar, and this latter rate was used to translate "All other assets and liabilities" in Brazilian currency at December 31, 1966. The rate of 2.715 cruzeiros was further reduced to 3.22 cruzeiros to the dollar as of January 4, 1968. As indicated in Note 1, the rate of 3.22 cruzeiros to the dollar was used to translate "All other assets and liabilities" in Brazilian currency at December 31, 1967.

3. ELECTRIC RATES, DEPRECIATION AND REVERSION OF FIXED ASSETS

New regulations enacted in November 1964 under the Water Code implemented a regime of service at cost for electric utilities which became effective as of January 1, 1965. Since that date a level of allowable remuneration has been determined by regulation and earnings in excess of this level are to be available only for the purpose of meeting deficiencies of earnings in subsequent years; conversely, deficiencies of earnings are recoverable in future rates. The same regulations provide that in the determination of rates and in computing allowable earnings depreciation may be deducted at rates in excess of those used by the companies prior to 1965, which were based on the expected useful physical lives of the assets; the regulations also permit the inclusion in rates and the deduction in arriving at allowable earnings of a provision in respect of the ultimate reversion of electric properties to the concessionary authorities. Such provisions for depreciation and reversion and the allowed return on capital are based on the cruzeiro cost (or depreciated cost) of the investment after monetary correction to allow for the decline in the purchasing power of the cruzeiro.

In 1965 and 1966 certain of the electric subsidiaries' earnings were below the estimated allowable level and operating revenues include approximately \$4,300,000 in 1967 and \$5,100,000 in 1966 representing the recovery of prior years' deficiencies. After allowing for the recovery of these deficiencies operating revenues over the three years 1965 to 1967 produced more than the remuneration estimated by the Company as allowable. The excess has been excluded from operating revenues in 1967 and is included in the consolidated balance sheet at December 31, 1967 in accounts payable and accrued charges. All or part of this excess may have to be deposited in an official bank until such time as it is required to meet future deficiencies in remuneration.

The regulatory authorities have not yet completed their determination of the remunerable investment. Electric rates may therefore be adjusted in future to reflect as from January 1, 1965, any change in the remunerable investment which may result therefrom.

In 1967 the regulatory authorities reduced from 5% to 3% of depreciable plant the rate of depreciation to be written and recovered in operating revenues. Although the 1965, 1966 and 1967 provisions for depreciation, as directed by the regulatory authority, are each in excess of the annual amounts that would have been provided on the basis (used prior to 1965) of expected useful physical lives, the economic usefulness of the electric properties to the Company is reduced by the full amount of the depreciation provision made in the accounts since future rates and allowable earnings must be computed by reference to the depreciated value of the plant in service.

The regulations require that the reversion monies generated by the rates be deposited in a special bank account and used either to pay the final indemnity upon reversion of the properties to the concessionary authorities or expended in approved expansion programs. With the permission of the regulatory authority the Company has withdrawn substantially all of the reversion monies to date and invested them in plant expansion.

Interest at 6% per annum on reversion monies invested in plant must also be deposited in the special reversion bank account subject to the same provisions for withdrawal for plant expansion. The charge of \$1,722,750 (1966—\$921,127) in the statement of consolidated income represents the interest for the year 1967.

4. EXCHANGE REGULATIONS AND REMITTANCES

Remittances from Brazil are subject to the exchange regulations of that country. Working capital includes balances in Brazil, the transfer of which is subject to such regulations. Interest and dividend payments from subsidiaries are subject to withholding taxes. Full provision has been made as at December 31, 1967 for withholding taxes on remittable interest due and accrued at that date and on 1967 subsidiary earnings to the extent that distribution of such earnings is anticipated by way of dividend payments in 1968.

5. RECEIVABLE ON SALE OF TELEPHONE UTILITY

This amount with interest at 6% is receivable in equal quarterly instalments from April 1, 1969 to January 1, 1986 under an agreement dated March 26, 1966 whereby the Company's telephone utility was sold to an agency of the federal Government of Brazil. Payments under the agreement carry the guarantee of that government. The Company is obligated to re-invest 75% of this amount in other enterprises in Brazil over the term of the agreement. The amounts receivable within one year under this agreement are included under current assets.

6. OTHER INVESTMENTS

These investments include marketable securities of \$29,899,672 (1966—\$6,430,065) with a market value of \$38,879,711 (1966—\$6,632,113).

7. UNREALIZED BALANCE OF EXPROPRIATED ASSETS OF SÃO PAULO GAS SERVICE

On October 27, 1967 the municipality of São Paulo expropriated the assets employed by the Company's gas

utility in that city for the manufacture and distribution of gas. The equivalent of \$2,406,938 was deposited by the municipality in favour of the Company's subsidiary pending final determination by the court of the indemnity payable for the assets expropriated. The balance of \$5,970,060 represents the book value of the assets less the deposit.

No loss is anticipated as a result of the expropriation, but this can only be finally determined when the value of the assets is settled by the court.

8. STOCK OPTIONS

During 1965 the Company reserved 500,000 of its unissued ordinary shares for the purpose of granting to officers and employees of the Company and its subsidiaries options to purchase shares of the Company at the market price on the date each option is granted. Options expiring in 1975 were granted in 1965 on 258,000 ordinary shares at prices of Can. \$6.88 or \$7.00 per share of which 82,000 were optioned to officers of the Company. Options expiring in 1977 were granted in 1967 on 76,000 ordinary shares at a price of Can. \$12 $\frac{7}{8}$ per share, of which 15,000 were optioned to officers of the Company. To December 31, 1967, options were exercised on a total of 234,200 shares at prices of Can. \$6.88 or \$7.00 per share of which 192,600 were exercised during 1967. The remaining options outstanding are exercisable at any time within the option periods.

9. PROVISION FOR AMORTIZATION

This provision, accumulated prior to 1953, may be required to cover the undepreciated cost of certain properties upon their reversion at varying dates up to 1990 under the terms of some of the concessions under which Light—Serviços de Eletricidade S.A. and Sociedade Anônima do Gás do Rio de Janeiro operate.

10. REMUNERATION OF DIRECTORS

Remuneration paid by the Company and its subsidiaries to the Company's directors, including directors holding salaried employment as officers, totalled \$629,172 in 1967. Remuneration paid to other senior officers totalled \$113,544.

11. EXPANSION PROGRAM

During 1965 the electric subsidiary companies inaugurated a three year program to expand their electric distribution and transmission facilities. Capital expenditures under this program were originally expected to amount to \$122,000,000 of which \$40,000,000 was available from loans arranged with the United States Agency for International Development. Under modifications in the program and its extension for a further year to include 1968, capital expenditures are now estimated to total \$186,000,000 of which \$146,000,000 will be financed from company funds. To December 31, 1967 approximately \$84,220,000 of this latter amount has been expended and \$14,380,000 committed.

Clarkson, Gordon & Co.

Chartered Accountants

Toronto 1

CANADA

AUDITORS' REPORT

To the Shareholders of
Brazilian Light and Power Company Limited

We have examined the consolidated balance sheet of Brazilian Light and Power Company Limited and its subsidiaries as at December 31, 1967 and the statements of consolidated income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 3, 1968.

Clarkson, Gordon & Co.
Chartered Accountants.

LIGHT—SERVIÇOS DE ELETRICIDADE S.A.

Directors

ANTONIO GALLOTTI

President

J. J. MARQUES FILHO

Vice-President

ARNALDO DA COSTA FARO

JOSÉ RUBEM FONSECA

JOSÉ SAMPAIO DE FREITAS

A. H. LEAL

MALCOLM H. MACKENZIE

J. S. MONTEIRO

ANTÔNIO DE ALMEIDA NEVES

ALBERTO DO AMARAL OSÓRIO

A. A. DE A. SODRÉ

R. E. SPENCE

OTHER SUBSIDIARY COMPANIES IN BRAZIL

BANCO DE DESENVOLVIMENTO E INVESTIMENTO BRASCAN S.A.

EMPRESA TÉCNICA DE ORGANIZAÇÃO E PARTICIPAÇÕES S.A.

ORGANIZAÇÃO E EMPREENDIMENTOS GERAIS S.A.

SOCIEDADE ANÔNIMA DO GÁS DO RIO DE JANEIRO

ANTONIO GALLOTTI — *President*

An apprentice and his teacher in our Rio de Janeiro workshops



Future linesmen training on practice distribution poles



Statistics of the Operating Companies

ELECTRIC LIGHT AND POWER

	1967	1966	1965	1964	1963
Kilowatt-hours sold (millions)					
Residential	3,145	2,862	2,642	2,449	2,302
Commercial	2,266	2,149	2,032	1,841	1,823
Industrial	6,262	6,131	5,313	5,326	5,374
Public utilities and others	1,972	1,655	1,654	1,625	1,684
Total	13,645	12,797	11,641	11,241	11,183
Customers	2,535,389	2,403,078	2,285,025	2,182,275	2,076,710
Employees	22,949	21,562	19,319	18,022	18,028
Capacity of generating plants (kw)	2,147,813	2,146,823	2,146,823	2,146,823	2,147,550
Transmission lines (miles of circuit)	2,650	2,534	2,504	2,495	2,489
Distribution lines (miles of wire)	113,178	110,184	105,021	101,615	98,623

GAS*

	1967	1966	1965	1964	1963
Gas sold (millions of cubic feet)	10,784	11,197	11,453	11,927	11,489
Customers	288,654	406,750	415,436	413,301	406,989
Employees	2,390	3,504	3,220	3,248	3,237
Mains (miles)	735	1,453	1,451	1,450	1,449

*1967 statistics reflect the discontinuance of the Santos gas service in January and the São Paulo gas service in October.

Annual Meeting

The Annual Meeting of the Shareholders will be held at the Royal York Hotel, Toronto on Monday, June 3, 1968, at 11 o'clock in the morning.

Transfer Agents

National Trust Company, Limited Toronto, Montreal and Vancouver
First National City Bank New York

Registrars

Canadian Imperial Bank of Commerce Toronto, Montreal and Vancouver
Bankers Trust Company New York

Associated Companies

Canadian-Brazilian Services Limited Toronto and London
American-Brazilian Suppliers, Inc. New York

Si vous préférez recevoir la version française de ce rapport, nous serons heureux de vous en envoyer un exemplaire. Veuillez adresser votre demande au Secrétaire de la Compagnie.



BRAZILIAN LIGHT SYSTEM AND SOURCES OF POWER



